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MEDIA RELEASE

Happy Tax Freedom Day!

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Immediate Release

On Sunday 12 May 2024 South Africans celebrate Tax Freedom Day (TFD). That is effectively the day when the average person stops working for government and starts keeping what they earn. This is a day later than last year, which means that we are working an extra day for the government in 2024.

What is tax freedom day and why does it matter? TFD can be thought of as the day after which South Africans have effectively produced enough wealth (GDP) to pay for what the government takes. The average for the year is spread over the year, but easier to think of as the first 132 of the 365 days in the year.

In effect, people start working for themselves after TFD. TFD is also a predictor of the wisdom of the government's tax and fiscal policy, and of the impact of massive spending projects such as the biggest ever proposed, NHI.

The TFD concept was developed in the USA in 1948, and calculated by statistician Garth Zietsman for South Africa since the 1970s. The TFD calculation allows people to appreciate the degree to which government appropriates the fruits of their hard work and enterprise. As Karl Marx would have put it, it is the degree to which people are "exploited". It is as if subjects are serfs owing overlords many hours per day.

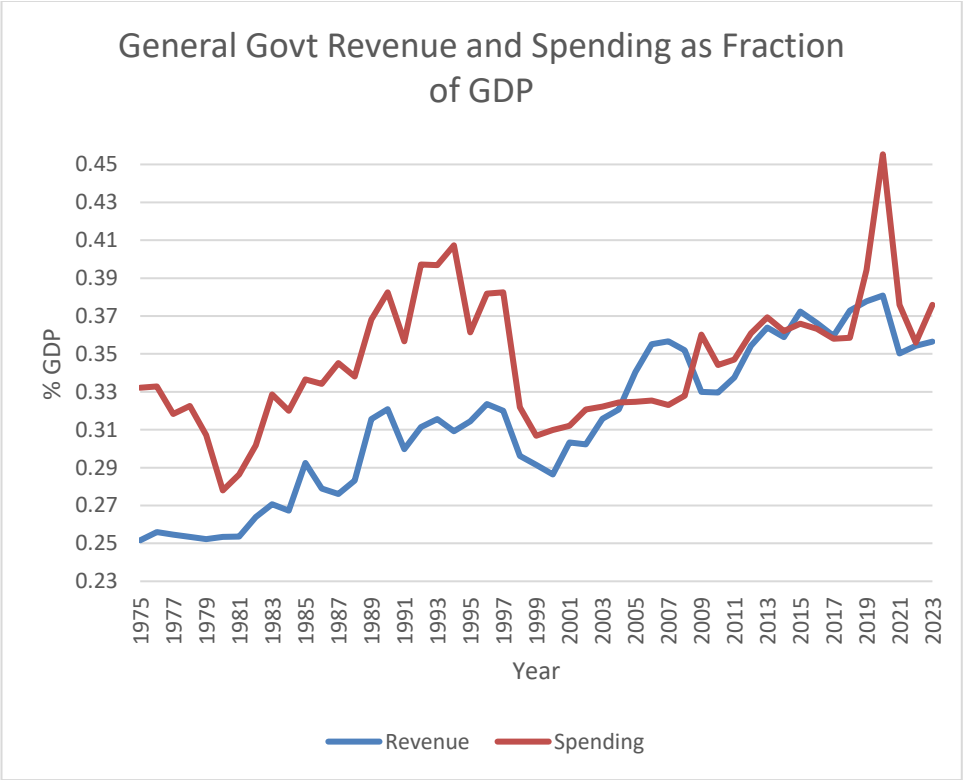
Mathematically, the proportion of wealth taken by government is calculated by dividing total government revenue (not just central government) by all wealth produced defined as Gross Domestic Product (GDP) for the calendar year (not tax year), and then multiplying that by the number of days per year (365.25).

The graph below shows that South Africa's TFD has increased relentlessly at roughly one day per year. Notwithstanding some dips around the 2008 financial crisis, and the Covid19 years, the upward trend is a roughly straight (linear) line. Extending the revenue graph (below) trend backwards to zero takes it close to 1913. Few people realise that there were virtually no taxes back then. USA Federal income tax started

in 1909. South Africa followed in 1914. Governments used to be funded primarily by user charges such as court, refuse and water charges, and by import duties.

The government currently takes about 36% of all wealth produced, which is slightly more than eight of a month's twenty-two working days, or more than one and half working weeks per month. Since 1994 the government has increased its share of everyone's wealth by 23.8%. Before 1994, the National Party government increased TFD at the same rate.

If the revenue and spending graph is extrapolated forwards to 100%, productivity would fall to zero and the government would have zero income. The UK learned the hard way when they pushed marginal tax rates to 100% in 1943. The maximum rate of exploitation that the government can achieve, the point of diminishing returns, might not be much more than the current rate.



The idea that government is necessary and should be funded does not justify exploitative tax rates. The world's experience proves that large governments are unnecessary and undesirable. Countries with smaller governments tend to be more prosperous. Governments appear to be subject to something like the natural biological limit on how much parasites can exploit hosts before both sicken or die. South Africa has not seen an increase in average wealth since 2008. This is unlikely to change until the government moves TFD back towards earlier dates by cutting spending.

The freedom implied by smaller governments is an end in itself – people value liberty. But small governments provide more than liberty, they also provide wealth and prosperity for all. Since governments are, by definition coercive, bigger governments coincide with less freedom and prosperity. Since high taxes are often used against the interests of the public, and taxpayers in particular, governments should be strictly limited to early TFDs to better serve those they tax and govern.

What lies ahead? Probably a continuation of the trend until a natural 'Laffer Curve' peak, well-known to economists, is reached. Under current circumstances, the government is pressurised to consume and spend ever-more tax to fund such unaffordable projects as National Health Insurance (NHI), and the electricity Integrated Resource Plan (IRP2023). If the government's NHI cost estimate of an extra R200

billion per year is correct, that alone would make TFD eight percent or almost a month later. If it costs around R550 billion more, as most experts estimate, TFD will be 80 days later; the end of July, more than half the working year.

Laffer Curve economics predicts that even the government's NHI under-estimate would result in it receiving less revenue due to investors having less to invest, tax evasion, capital flight and other causes of economic contraction. In the only reliable estimate of what "full" NHI implementation might cost, the Freedom Foundation shows that it would be closer to an obviously impossible R1 trillion, or half of the annual Budget.

If other increases, such as IRP2023, national debt, infrastructure, social grants and the like are added, South Africa faces TFDs so late in the year that the government would face bankruptcy and taxpayer revolt.

International experience suggests the absolute TFD maximum is not far off. Governments noted for efficient delivery can survive up to 50% of GDP being taxed. Given our relative inefficiency, we are likely to peak sooner at perhaps 40% of GDP, or TFD in early June. If the relentless advance of TFD is not stalled and reversed, the opportunity cost for South Africa will be suicidal.

There might be light at the end of the tunnel. This year's Budget makes no provision for at least four years for taxes that would be required to fund NHI, IRP2023 and other prohibitive fiscal burdens. If promised tax-and-spend targets are met, TFD will be two days earlier on 10 May next year. Should that be achieved and sustained, South Africa will enter a new era of prosperity for all.

End

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Notes to the Editor

'Leon Louw speaks' is a regular communication of Leon's thoughts and ideas on government policy, free market economics, individual freedom, and liberty drawn from his 50 years of policy and think tank work in Southern Africa and internationally.

Leon Louw founded and led the Free Market Foundation and now leads his own research and policy group, Freedom Foundation & Izwe Lami (Titling), as CEO.

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